

**NEW BRANCHES SCHOOL**  
**Kent County, Michigan**

Comprehensive Annual Financial Report

For the year ended June 30, 2007

**NEW BRANCHES SCHOOL**  
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For the year ended June 30, 2007

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## **FINANCIAL SECTION**

Hungerford, Aldrin,  
Nichols & Carter, P.C.  
CPAs AND CONSULTANTS

**INDEPENDENT AUDITOR'S REPORT**

September 10, 2007

The Board of Directors  
New Branches School

We have audited the accompanying financial statements of the governmental activities, the major fund and the aggregate remaining fund information of New Branches School (the "School") as of and for the year ended June 30, 2007, which collectively comprise the Schools' basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School's elected officials and management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the major fund and the aggregate remaining fund information of New Branches School at June 30, 2007, and the respective changes in financial position and budgetary comparison from the General Fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 10, 2007 on our consideration of New Branches School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of New Branches School. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Hungerford, Aldrin, Nichols & Carter, P.C.*

Certified Public Accountants

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**NEW BRANCHES SCHOOL**  
**Management's Discussion and Analysis**  
**June 30, 2007**

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As management of New Branches School, we offer readers of the financial statements this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2007. We encourage readers to consider the information presented here in conjunction with New Branches' financial statements, which immediately follow this section.

**Overview of the Financial Statements**

This annual report consists of three parts: Management's Discussion and Analysis (this section), the Basic Financial Statements and Supplemental Information. The Basic Financial Statements include two kinds of statements that present different views of New Branches:

- The first two statements, the Statement of Net Assets and the Statement of Activities, are *school-wide* financial statements that provide both short-term and long-term information about New Branches' overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of New Branches, reporting operations in more detail than the district-wide statements.
  - ♦ *Governmental funds statements* tell how basic services such as regular and special education were financed in the short term as well as what remains for future spending.

The Basic Financial Statements also include Notes to Basic Financial Statements that explain the information in the Basic Financial Statements and provide more detailed data. Supplemental Information follows and includes combining and individual fund statements.

**School-wide Statements**

The school-wide financial statements report information about New Branches as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of New Branches' assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two school-wide statements report New Branches' net assets, and how they have changed. Net assets - the difference between assets and liabilities - is one way to measure New Branches' financial health or position.

- Over time, increases or decreases in New Branches' net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess New Branches' overall health, one should consider additional non-financial factors such as changes in pupil membership and the condition of the school's building and equipment.

In the school-wide financial statements, New Branches' activities are presented as follows:

- *Governmental activities*: New Branches' basic services are included here, such as regular and special education, instructional support, administration, community services and food service. State aid finances most of these activities.



**NEW BRANCHES SCHOOL**  
**Management's Discussion and Analysis**  
**June 30, 2007**

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**Condensed School -Wide Financial Information**

The Statement of Net Assets provides financial information for New Branches as a whole.

	<u><b>2007</b></u>	<u><b>2006</b></u>
<b>Assets</b>		
Current assets	\$ 356,782	\$ 242,475
Net capital assets	<u>67,758</u>	<u>80,343</u>
<b>Total Assets</b>	<u><b>424,520</b></u>	<u><b>322,818</b></u>
<b>Liabilities</b>		
Current liabilities	<u><b>84,370</b></u>	<u><b>74,464</b></u>
<b>Net Assets</b>		
Invested in capital assets	67,758	80,343
Unrestricted	<u>272,412</u>	<u>168,011</u>
<b>Total Net Assets</b>	<u><b>\$ 340,170</b></u>	<u><b>\$ 248,354</b></u>

**NEW BRANCHES SCHOOL**  
**Management's Discussion and Analysis**  
**June 30, 2007**

The results of the fiscal year's operations for New Branches as a whole are presented in the Statement of Activities, which shows the change in total net assets for the year.

	<u>2007</u>	<u>2006</u>
<b>Program Revenues</b>		
Charges for services	\$ 30,161	\$ 26,138
Operating grants	226,454	99,838
<b>General Revenues</b>		
State school aid, unrestricted	1,117,877	898,395
Interest earnings	1,778	2,144
Other	59,212	43,376
<b>Total Revenues</b>	<u>1,435,482</u>	<u>1,069,891</u>
<b>Expenses</b>		
Instruction	748,046	633,226
Supporting services	524,667	494,208
Community services	21,116	20,689
Other	160	—
Food service	49,677	36,572
<b>Total Expenses</b>	<u>1,343,666</u>	<u>1,184,165</u>
Increase (decrease) in net assets	91,816	(114,804)
<b>Net Assets - Beginning of Year</b>	<u>248,354</u>	<u>363,158</u>
<b>Net Assets - End of Year</b>	<u><u>\$ 340,170</u></u>	<u><u>\$ 248,354</u></u>

**Financial Analysis of the School as a Whole**

New Branches' financial position is the product of many factors. The significant increase in revenues was the result of an increased student count of thirty-two from 2005-06 to 2006-07.

Unrestricted state aid accounted for most of New Branches's revenue, contributing 78 percent of every dollar raised. Another 16 percent came from State, federal and local aid for specific programs and the remainder from fees charged for services and miscellaneous sources.

New Branches's expenses are predominantly related to instructing students (56 percent). Instruction support, administration and operation and maintenance accounted for 39 percent of total costs. Food service and child care expenses accounted for the remaining 5 percent of the total costs. The most significant contributors to higher costs were salary, retirement and health insurance increases.

Total revenues surpassed expenses, increasing net assets by \$91,816.

New Branches has continued to monitor the General Fund expenditure budget through stringent purchasing controls.

**NEW BRANCHES SCHOOL**  
**Management's Discussion and Analysis**  
**June 30, 2007**

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**Fund Financial Statements**

The fund financial statements provide more detailed information about New Branches' funds, focusing on its most significant or "major" fund (the General Fund) - not the school as a whole. Funds are accounting devices used to keep track of specific sources of funding and spending on particular programs.

New Branches utilizes only one kind of fund:

- *Governmental funds:* All of New Branches' basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed, short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance school programs. Because this information does not encompass the additional long-term focus of the school-wide statements, additional information following the governmental funds' statements explain the relationship (or differences) between them.

**Financial Analysis of the School's Funds**

New Branches uses funds to record and analyze financial information. New Branches' funds are described as follows:

Major Fund

The General Fund is New Branches's primary operating fund. The General Fund had total revenues of \$1,395,531, total expenditures of \$1,281,893, and total other financing uses of \$9,237. It ended the fiscal year with a fund balance of \$270,821, up from \$166,420 as of June 30, 2006. The increase was primarily due to a higher student count, leading to increased State and other grant revenues.

Nonmajor Fund

New Branches operates one nonmajor Special Revenue Fund, for the food service program. Total revenues were \$39,951, with total expenditures of \$49,188. General Fund transfers to balance 2006-07 operations totaled \$9,237. The ending fund balance was unchanged at \$1,591.

**General Fund Budgetary Highlights**

New Branches revised the annual operating budget once during the year. These budget amendment fell into the following categories:

- Changes made in March to reflect actual State and grant awards resulting from the final student enrollment count that determines how much foundation grant school aid will be received during the fiscal year, and to adjust expenditures to coordinate with the increased revenues.
- Although the School's final budget for the General Fund anticipated revenues would exceed expenditures by \$47,658, the actual results for the year show a \$104,401 increase for the fiscal year.
- Actual revenues were \$27,442 higher than expected, due mainly to increased State aid foundation and special education grants.

**NEW BRANCHES SCHOOL**  
**Management's Discussion and Analysis**  
**June 30, 2007**

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- Actual expenditures were \$32,341 below budget, due primarily to savings in operation and maintenance services.

**Capital Asset and Debt Administration**

Capital Assets

By the end of 2007, New Branches had invested a total of \$197,103 in capital assets, including land improvements, building improvements and furniture and equipment. More detailed information about capital assets can be found in Note E in the Notes to Basic Financial Statements.

The net book value of capital assets at June 30, 2007 are as follows:

Land improvements	\$ 9,154
Building improvements	7,469
Furniture and equipment	<u>51,135</u>
<b>Net Capital Assets</b>	<u><u>\$ 67,758</u></u>

Long-Term Debt

New Branches has no outstanding long-term debt.

**Factors Bearing on the School's Future**

At the time these financial statements were prepared and audited, New Branches was aware of the following existing circumstances that could significantly affect its financial health in the future:

- Increases in salary and benefits continue to be a huge financial cost to the School's General Fund. Health insurance rates will increase 20% in 2008.
- The current state of the Michigan economy has created a financial hardship on most schools in the State. The foundation allowance for New Branches increased by \$210 per pupil, to \$7,326 from 2005-06 to 2006-07. Funding in 2007-08 is uncertain, threatening reductions in academic programs and services to our students.
- The School is in the second year of a planned grade expansion. The financial health of the school depends on building a healthy fund balance to support a facility expansion project.
- Enrollment in the upper elementary grades is a key concern of the administration. Retaining and recruiting students in fifth and sixth grades is challenging, as other area public schools change their grade structures for middle school. To ensure success in this area, a specialized curriculum will be developed for sixth grade to provide a competitive advantage and a good option for parents.

**Contacting the School's Financial Management**

This financial report is designed to provide New Branches's parents, citizens, customers, investors and creditors with a general overview of New Branches's finances and to demonstrate New Branches's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Director's Office, New Branches School, 256 Alger SE., Grand Rapids, Michigan 49507.

## **BASIC FINANCIAL STATEMENTS**

**NEW BRANCHES SCHOOL**  
**Statement of Net Assets**  
**June 30, 2007**

	<u>Governmental Activities</u>
<b>Assets</b>	
<b>Current Assets</b>	
Cash equivalents (Note B)	\$ 145,012
Accounts receivable	4,069
Due from other governmental units (Note C)	200,164
Inventory (Note A)	251
Prepaid expenses	7,286
<b>Total Current Assets</b>	<u>356,782</u>
<b>Noncurrent Assets</b>	
Capital assets (Note E)	197,103
Less accumulated depreciation	<u>(129,345)</u>
<b>Total Noncurrent Assets</b>	<u>67,758</u>
<b>Total Assets</b>	<u>424,540</u>
<b>Liabilities</b>	
<b>Current Liabilities</b>	
Accounts payable	16,021
Due to other governmental units	24,583
Salaries payable	42,575
Deferred revenue	1,191
<b>Total Liabilities</b>	<u>84,370</u>
<b>Net Assets</b>	
Invested in capital assets	67,758
Unrestricted	<u>272,412</u>
<b>Total Net Assets</b>	<u><u>\$ 340,170</u></u>

See accompanying notes to basic financial statements.

**NEW BRANCHES SCHOOL**  
**Statement of Activities**  
**For the year ended June 30, 2007**

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes In Net Assets
		Charges for Services	Operating Grants	
<b>Governmental Activities</b>				
Instruction	\$ 748,046	\$ -	\$ 197,679	\$ (550,367)
Supporting services	524,667	-	-	(524,667)
Community services	21,116	18,985	-	(2,131)
Other	160	-	-	(160)
Food service	49,677	11,176	28,775	(9,726)
<b>Total Governmental Activities</b>	<u>\$ 1,343,666</u>	<u>\$ 30,161</u>	<u>\$ 226,454</u>	<u>(1,087,051)</u>
		<b>General Revenues</b>		
		State school aid, unrestricted		1,117,877
		Interest earnings		1,778
		Other		59,212
		<b>Total General Revenues</b>		<u>1,178,867</u>
		<b>Change in Net Assets</b>		91,816
		<b>Net Assets - Beginning of Year</b>		<u>248,354</u>
		<b>Net Assets - End of Year</b>		<u>\$ 340,170</u>

See accompanying notes to basic financial statements.

**NEW BRANCHES SCHOOL**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2007**

	<u>General</u>	<u>Nonmajor</u>	<u>Total</u>
<b>Assets</b>			
Cash equivalents (Note B)	\$ 143,107	\$ 1,905	\$ 145,012
Accounts receivable	3,443	626	4,069
Due from other governmental units (Note C)	200,164	-	200,164
Inventory (Note A)	-	251	251
Prepaid expenditures	7,286	-	7,286
<b>Total Assets</b>	<u><u>\$ 354,000</u></u>	<u><u>\$ 2,782</u></u>	<u><u>\$ 356,782</u></u>
<b>Liabilities and Fund Balances</b>			
<b>Liabilities</b>			
Accounts payable	\$ 16,021	\$ -	\$ 16,021
Due to other governmental units	24,583	-	24,583
Salaries payable	42,575	-	42,575
Deferred revenue	-	1,191	1,191
<b>Total Liabilities</b>	<u>83,179</u>	<u>1,191</u>	<u>84,370</u>
<b>Fund Balances</b>			
Unreserved:			
Undesignated, reported in:			
General fund	270,821	-	270,821
Special revenue fund	-	1,591	1,591
<b>Total Fund Balances</b>	<u>270,821</u>	<u>1,591</u>	<u>272,412</u>
<b>Total Liabilities and Fund Balances</b>	<u><u>\$ 354,000</u></u>	<u><u>\$ 2,782</u></u>	<u><u>\$ 356,782</u></u>

See accompanying notes to basic financial statements.



**NEW BRANCHES SCHOOL**  
**Reconciliation of Total Governmental Fund Balances to**  
**Net Assets of Governmental Activities**  
**June 30, 2007**

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<b>Total governmental fund balances</b>	\$ 272,412
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Amounts reported for governmental activities in the Statement of Net  
Assets are different because:

Capital assets used in governmental activities are not financial  
resources and therefore are not reported as assets in  
governmental funds. The cost of assets is \$197,103  
and accumulated depreciation is \$129,345.

67,758
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**Total net assets - governmental activities**

\$ 340,170
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See accompanying notes to basic financial statements.

**NEW BRANCHES SCHOOL**  
**Statement of Revenues, Expenditures and**  
**Changes in Fund Balances**  
**Governmental Funds**  
**For the year ended June 30, 2007**

	<u>General</u>	<u>Nonmajor</u>	<u>Total</u>
<b>Revenues</b>			
Local sources	\$ 79,975	\$ 11,176	\$ 91,151
State sources	1,172,597	664	1,173,261
Federal sources	47,250	28,111	75,361
Interdistrict sources	95,709	-	95,709
<b>Total Revenues</b>	<u>1,395,531</u>	<u>39,951</u>	<u>1,435,482</u>
<b>Expenditures</b>			
Current:			
Instruction	738,942	-	738,942
Supporting services	521,675	-	521,675
Community services	21,116	-	21,116
Facilities acquisition	160	-	160
Food service	-	49,188	49,188
<b>Total Expenditures</b>	<u>1,281,893</u>	<u>49,188</u>	<u>1,331,081</u>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<u>113,638</u>	<u>(9,237)</u>	<u>104,401</u>
<b>Other Financing Sources (Uses)</b>			
Transfers in	-	9,237	9,237
Transfers out	(9,237)	-	(9,237)
<b>Total Other Financing Sources (Uses)</b>	<u>(9,237)</u>	<u>9,237</u>	<u>-</u>
<b>Net Change in Fund Balances</b>	104,401	-	104,401
<b>Fund Balances, Beginning of Year</b>	<u>166,420</u>	<u>1,591</u>	<u>168,011</u>
<b>Fund Balances, End of Year</b>	<u><u>\$ 270,821</u></u>	<u><u>\$ 1,591</u></u>	<u><u>\$ 272,412</u></u>

See accompanying notes to basic financial statements.

**NEW BRANCHES SCHOOL**  
**Reconciliation of the Statement of Revenues, Expenditures**  
**and Changes in Fund Balances of Governmental Funds**  
**to the Statement of Activities**  
**For the year ended June 30, 2007**

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**Net change in fund balances - total governmental funds** \$ 104,401

Amounts reported for governmental activities in the Statement of Activities  
are different because:

Governmental funds report capital outlays as expenditures. However,  
in the Statement of Activities, the cost of these assets is capitalized  
and the cost is allocated over their estimated useful lives as deprecia-  
tion expense. This is the amount by which depreciation exceeded  
capital outlays in the current period:

	Capital outlays	\$ -	
	Depreciation expense	(12,585)	(12,585)
<b>Total changes in net assets - governmental activities</b>		<b>\$ 91,816</b>	<b><u><u>91,816</u></u></b>

See accompanying notes to basic financial statements.

**NEW BRANCHES SCHOOL**  
**General Fund**  
**Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual**  
**For the year ended June 30, 2007**

	Budgeted Amounts		Actual	Variance With Final Budget - Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Local sources	\$ 79,203	\$ 76,800	\$ 79,975	\$ 3,175
State sources	1,132,660	1,148,544	1,172,597	24,053
Federal sources	29,600	47,036	47,250	214
Interdistrict sources	94,132	95,709	95,709	-
<b>Total Revenues</b>	<b>1,335,595</b>	<b>1,368,089</b>	<b>1,395,531</b>	<b>27,442</b>
<b>Expenditures</b>				
Current:				
Instruction:				
Basic programs	601,483	588,249	583,332	4,917
Added needs	172,555	157,677	155,610	2,067
Supporting services:				
Pupil services	828	33,872	38,290	(4,418)
Instructional staff services	9,252	13,634	13,515	119
General administrative services	155,782	169,827	167,526	2,301
School administrative services	99,507	104,910	99,987	4,923
Business services	16,373	1,017	1,016	1
Operation and maintenance services	200,671	210,424	193,833	16,591
Pupil transportation services	300	300	303	(3)
Central services	9,338	10,349	7,205	3,144
Community services	21,338	22,975	21,116	1,859
Facilities acquisition	-	1,000	160	840
<b>Total Expenditures</b>	<b>1,287,427</b>	<b>1,314,234</b>	<b>1,281,893</b>	<b>32,341</b>
<b>Excess Of Revenues Over Expenditures</b>	<b>48,168</b>	<b>53,855</b>	<b>113,638</b>	<b>59,783</b>
<b>Other Financing Sources (Uses)</b>				
Transfers out	(8,086)	(6,197)	(9,237)	(3,040)
<b>Net Change in Fund Balances</b>	<b>40,082</b>	<b>47,658</b>	<b>104,401</b>	<b>56,743</b>
<b>Fund Balances, July 1</b>	<b>166,420</b>	<b>166,420</b>	<b>166,420</b>	<b>-</b>
<b>Fund Balances, June 30</b>	<b>\$ 206,502</b>	<b>\$ 214,078</b>	<b>\$ 270,821</b>	<b>\$ 56,743</b>

See accompanying notes to basic financial statements.

## **NOTES TO BASIC FINANCIAL STATEMENTS**

**NEW BRANCHES SCHOOL**  
**Notes to Basic Financial Statements**  
**June 30, 2007**

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## **Note A – Summary Of Significant Accounting Policies**

New Branches School received its charter under Public Act 416 of 1994 from Central Michigan University on May 18, 1995. As part of the chartering process, New Branches was instructed to file restated Articles of Incorporation with the Michigan Department of Commerce. According to the contract with Central Michigan University, New Branches is to act exclusively as a governmental agency and is not to undertake any action inconsistent with its status as an entity authorized to receive state school aid funds pursuant to the State Constitution. Under this contract, Central Michigan University provides certain services to New Branches including approval of New Branches operating plan, monitoring compliance with provisions of the charter contract and the selection of members for the Board of Directors. Central Michigan University is paid 3% of State Aid payments received by New Branches for such services.

The School is governed by a Board of Directors consisting of seven members approved by Central Michigan University and administered by a Director who is appointed by the aforementioned Board. The School provides educational services for approximately 162 full-time students as specified by state statute and Board of Directors policy. These services include elementary education, preschool programs, special education, community services and general administrative services.

The financial statements of New Branches School (the “School”) have been prepared in conformity with accounting principles generally accepted in the United States of America as applicable to school districts. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The more significant of the School’s accounting policies are described below.

### **1. The Reporting Entity**

The financial reporting entity consists of a primary government and its component units. The School is a primary government because it is a special-purpose government that has a separately elected governing body, is legally separate and is fiscally independent of other state or local governments. Furthermore, there are no component units combined with the School for financial statement presentation purposes, and the School is not included in any other governmental reporting entity. Consequently, the School’s financial statements include the funds of those organizational entities for which its elected governing board is financially accountable.

### **2. School-Wide and Fund Financial Statements**

**School-Wide Financial Statements** - The school-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) present financial information about the School as a whole. The reported information includes all of the nonfiduciary activities of the School. The School does not allocate indirect costs and, for the most part, the effect of interfund activity has been removed. These statements are to distinguish between the *governmental* and *business-type activities* of the School. *Governmental activities* normally are supported by taxes and intergovernmental revenues, and are reported separately from *business-type* activities, which rely to a significant extent on fees and charges for support. The School does not have any business-type activities.

The Statement of Net Assets is presented on the classified basis and is reported on the full accrual, economic resource basis, which recognizes all long-term assets as well as all long-term debt and obligations. The School’s net assets are reported in three parts: invested in capital assets, net of related debt; restricted net assets, and unrestricted net assets.

**NEW BRANCHES SCHOOL**  
**Notes to Basic Financial Statements**  
**June 30, 2007**

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The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function. *Program revenues* include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Property taxes, unrestricted state aid, interest earnings and other items not included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental and fiduciary funds, even though the latter are excluded from the government wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. The General Fund is the School's only major fund. The Food Service Fund is the School's only nonmajor fund.

**Fund Financial Statements** – Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Fund level statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances. The Balance Sheet reports current assets, current liabilities and fund balances. The Statement of Revenues, Expenditures and Changes in Fund Balances reports on the sources and uses of current financial resources. This differs from the economic resources measurement focus used to report at the school-wide level. Reconciliations between the two sets of statements are provided in separate statements.

Revenues are recognized when susceptible to accrual; i.e., both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School considers revenues to be available if they are collected within 60 days after the end of the current fiscal period. Expenditures are generally recorded when the liability is incurred, if they are paid within 60 days after the end of the current fiscal period. The exception to this general rule is that principal and interest on long-term debt is recognized when due.

Revenues susceptible to accrual are property taxes, state aid, federal and interdistrict revenues and investment income. Other revenues are recognized when received. Deferred revenue arises when a potential revenue does not meet both the measurable and available criteria for recognition in the current period. Deferred revenue also arises when resources are received by the School before it has a legal claim to them, as when grant monies are received prior to the incurrence of the qualifying expenditures.

### **3. Measurement Focus, Basis of Accounting and Financial Statement Presentation**

School-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the grantor or provider have been met.

The State of Michigan utilizes a foundation allowance approach, which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation allowance is funded from a combination of state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The State portion of the foundation is provided from the State's School Aid Fund and is recognized as revenues in accordance with state law and accounting principles generally accepted in the United States of America.

**NEW BRANCHES SCHOOL**  
**Notes to Basic Financial Statements**  
**June 30, 2007**

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### **Governmental Funds**

Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use, and balances of a school district's expendable financial resources and the related current liabilities are accounted for through governmental funds.

*General Fund*—The General Fund is the general operating fund of a school district. It is used to account for all financial resources, except those required to be accounted for in another fund. Included are all transactions related to the current operating budget.

*Special Revenue Funds*—Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes.

*School Service Funds*—School Service Funds are used to segregate, for administrative purposes, the transactions of a particular activity from regular revenue and expenditure accounts. A school district maintains full control of these funds. The School Service Fund maintained by the School is the Food Service Fund.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the school-wide and fiduciary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

When both restricted and unrestricted resources are available for use, it is the School's policy to use restricted resources first, then unrestricted as they are needed.

### **4. Budgets and Budgetary Accounting**

State of Michigan Public Act 621 (the Uniform Budgetary and Accounting Act) requires that the General Fund of a district be under budgetary control and that both budgeted and actual financial results do not incur a deficit. New Branches School has also adopted a budget for its Special Revenue Fund. A district's General Appropriations Resolution (the "budget") must be adopted before the beginning of each fiscal year. No violations (dollar deviations) from a district's budget may occur without a corresponding amendment to the budget. A district has the ability to amend the budget provided that the amendment is prior to the occurrence of the deviation and prior to the fiscal year-end. A district may also permit the chief administrative or fiscal officer to execute transfers between line items, within defined dollar or percentage limits, without prior approval of the Board of Directors. Expenditures may not legally exceed budget appropriations at the fund level. All appropriations lapse at the end of the fiscal year.

New Branches School utilizes the following procedures in establishing the budgetary data reflected in the financial statements:

- The Board of Directors and the Director establish proposed operating budgets for the ensuing fiscal year.
- Preliminary operating budgets are submitted to the Board of Directors by the Director. These budgets include proposed expenditures and the means of financing them.
- After the budgets are finalized, the Board of Directors adopts an appropriations resolution setting forth the amount of the proposed expenditures and the sources of revenue to finance them.



**NEW BRANCHES SCHOOL**  
**Notes to Basic Financial Statements**  
**June 30, 2007**

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- The original General Fund budget was amended during the year in compliance with State of Michigan Public Act 621 (the Uniform Budgetary and Accounting Act).
- Budgets for the General and Special Revenue Funds were adopted on the modified accrual basis of accounting, which is consistent with generally accepted accounting principles.

## **5. Encumbrances**

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budget integration in the governmental funds. There were no substantial encumbrances outstanding at year end.

## **6. Investments**

Investments are recorded at fair value, based on quoted market prices, or estimated fair value. Investment income is composed of interest and net changes in the fair value of applicable investments.

## **7. Inventory**

Inventories are valued at cost (first-in, first-out). Inventories of the Food Service Fund consist of food, unused commodities and other nonperishable supplies. Disbursements for inventory-type items are recorded as expenditures at the time of use for each fund.

## **8. Capital Assets**

Capital assets, which may include land, land improvements, buildings, vehicles and furniture and equipment, are reported in the school-wide financial statements. Assets having a useful life in excess of one year and whose costs exceed \$1,000 are capitalized. Capital assets are stated at historical cost or estimated historical cost where actual cost information is not available. Donated capital assets are stated at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of an asset or materially extend an asset's useful life are not capitalized. Improvements are capitalized and depreciated over the remaining useful life of the related assets.

Land improvements, building improvements and furniture and equipment are depreciated using the straight-line method over the following estimated useful lives:

Land improvements	20 years
Building improvements	20 years
Furniture and equipment	3-10 years

## **9. Fund Equity**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for expenditures or are legally segregated for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**NEW BRANCHES SCHOOL**  
**Notes to Basic Financial Statements**  
**June 30, 2007**

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**10. Interfund Activity**

Flows of cash from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers between governmental funds are eliminated in the Statement of Activities. Interfund transfers in the fund financial statements are reported as other financing sources/uses.

**11. Estimates**

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

**Note B – Cash Equivalents**

The State of Michigan allows a political subdivision to authorize its Treasurer or other chief fiscal officer to invest surplus funds belonging to and under the control of the entity as follows:

- Bonds, securities, and other obligations of the United States, or an agency or instrumentality of the United States.
- Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution, but only if the financial institution is a state or nationally chartered bank or a state or federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and that maintains a principal office or branch office located in this state under the laws of this state or the United States.
- Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of the purchase.
- United States or federal obligation repurchase agreements.
- Banker's acceptances of United States Banks.
- Mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.
- Surplus funds investment pools.

**Cash Equivalents**

Depositories actively used by the School during the year are detailed as follows:

1. Lake Michigan Credit Union
2. Macatawa Bank

**NEW BRANCHES SCHOOL**  
**Notes to Basic Financial Statements**  
**June 30, 2007**

Balances at June 30, 2007 related to cash equivalents and deposits are detailed in the Basic Financial Statements as follows:

Cash equivalents	<u><u>\$ 145,012</u></u>
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Cash equivalents consist of bank and/or credit union checking, savings and money market accounts.

*Custodial credit risk*

Custodial credit risk is the risk that in the event of bank or credit union failure, the School's cash equivalents may not be returned to the School. Protection of School cash equivalents is provided by the Federal Deposit Insurance Corporation and the National Credit Union Association. At year end, the carrying amount of the School's cash equivalents was \$145,012 and the bank balance was \$171,913. Of the bank balance, \$108,993 was covered by federal depository insurance and \$62,920 was uninsured.

**Note C – State School Aid**

On March 15, 1994, the voters of the State of Michigan approved Proposal A, which increased the State Sales and Use Tax rates from 4% to 6% and established a State Education Tax at a rate of 6 mills on all property, except that which is exempt by law from ad valorem property taxes, and dedicated the additional revenues generated to Michigan school districts.

These additional State revenues pass through to Michigan schools in the form of a per pupil "Foundation Allowance" paid on a "blended count" of School pupil membership in February, 2006 and September, 2006. The 2006-07 "Foundation Allowance" for New Branches School was \$7,326 for 153 "Full Time Equivalent" students, generating \$1,173,276 in state aid payments to the School of which \$192,577 was paid to the School in July and August, 2007 and included in "Due From Other Governmental Units" of the General Fund.

**Note D – Interfund Transfers**

Interfund transfers during the year ended June 30, 2007 were as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
<b>General Fund</b>		
Special Revenue Funds:		
Food Service Fund	\$ —	\$ 9,237
<b>Special Revenue Funds</b>		
Food Service Fund:		
General Fund	9,237	—
<b>Total All Funds</b>	<u>\$ 9,237</u>	<u>\$ 9,237</u>

Interfund transfers are essential to maintain the Special Revenue Fund of the School. The transfer assists the special revenue fund with payroll and employee benefits for food service employees. The School's intent is to appropriate expenditures to these funds on an actual basis to show the true costs of operation for these programs. By making the interfund transfer these expenditures can be allocated to each program as they occur.

**NEW BRANCHES SCHOOL**  
**Notes to Basic Financial Statements**  
**June 30, 2007**

**Note E – Capital Assets**

Capital asset activity for the year ended June 30, 2007 was as follows:

	<u>Balances July 1, 2006</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balances June 30, 2007</u>
Capital assets being depreciated:				
Land improvements	\$ 12,831	\$ —	\$ —	\$ 12,831
Building improvements	18,898	—	—	18,898
Furniture and equipment	165,374	—	—	165,374
Totals at historical cost	<u>197,103</u>	<u>\$ —</u>	<u>\$ —</u>	<u>197,103</u>
Less accumulated depreciation for:				
Land improvements	3,047	\$ 630	\$ —	3,677
Building improvements	9,771	1,658	—	11,429
Furniture and equipment	103,942	10,297	—	114,239
Total accumulated depreciation	<u>116,760</u>	<u>\$ 12,585</u>	<u>\$ —</u>	<u>129,345</u>
<b>Net Capital Assets</b>	<u>\$ 80,343</u>			<u>\$ 67,758</u>

Depreciation expense was charged to School activities as follows:

Governmental activities:	
Instruction	\$ 9,104
Supporting services	2,992
Food service	489
	<u>\$ 12,585</u>

**Note F – Operating Lease/Related Party Transactions**

On January 12, 2004, New Branches School entered into an operating lease agreement with New Branches Seed Foundation for the rental of classroom and other facilities located at 256 Alger SE and partial use of the facility at 304 Alger SE. New Branches School shall pay as rent the sum of \$10,000 per month or \$120,000 per year. The first payment was due December 1, 2003 and will continue for 5 years. As part of the lease agreement, New Branches School shall at its own expense keep and maintain all parts or portions of the property, including the repair or replacement of roofs, heating and plumbing during the primary term of the lease. The New Branches School Director/Principal is also on the Board of Directors of the New Branches Seed Foundation.

**NEW BRANCHES SCHOOL**  
**Notes to Basic Financial Statements**  
**June 30, 2007**

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## **Note G – Retirement Plan**

Substantially all School employees participate in the Michigan Public School Employees' Retirement System (MPERS), a multiple employer public retirement system. The School payroll for employees covered by MPERS for the year ended June 30, 2007 was \$684,952. A Basic Plan member may retire at age 55 with 30 or more years of credited service or at age 60 with 10 or more years of credited service. The annual retirement benefit, payable monthly for life, is equal to 1½ percent of a member's final average compensation multiplied by his/her number of years of credited service. Final average compensation is the employee's average salary over the last 5 years of credited service. Vested employees may retire at or after age 55 with 15 years of service and receive reduced retirement benefits.

Schools in the State of Michigan are required to contribute at a rate, annually determined by the State of Michigan, of covered employees' compensation to the MPERS plan. The contribution rate was 16.34% for the fiscal year ending September 30, 2006 and 17.74% for the fiscal year beginning October 1, 2006. The School's contributions to the plan for the fiscal years ended June 30, 2007, 2006 and 2005 were \$120,442, \$96,811 and \$81,579, respectively.

The "actuarial accrued liability" is a standardized disclosure method of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the MPERS' funding status on a going concern basis, assess progress made in accumulating sufficient assets to pay benefits when due and make comparisons among public employee retirement systems and employers.

The MPERS does not make separate measurements of assets and actuarial accrued liability for individual schools. The actuarial accrued liability at September 30, 2005 (the latest reporting date available expressed as \$ in millions) for the MPERS as a whole, determined through an actuarial valuation performed as of that date, was \$48,206. The MPERS' net assets available for benefits on that date were \$38,211 leaving an unfunded pension benefit obligation of \$9,995. Ten year historical trend information showing the MPERS' progress in accumulating sufficient assets to pay benefits when due is presented in the September 30, 2006 Annual Report of the MPERS, which may be obtained by contacting the System at P.O. Box 30171, Lansing, Michigan 48909-7671.

The total actuarial accrued liability (expressed as \$ in millions) increased by \$2,462 from September 30, 2004 to September 30, 2005. Not included in the pension benefit obligation above is any future obligation attributable to health, dental and vision insurance benefits which are funded on a cash disbursement basis. With the passage of Act 279 of 1996, making permanent the cash basis financing of health, dental and vision benefits, actuarially calculated liabilities for these benefits are no longer disclosed on the balance sheets.

Prior to January 1, 1990, participating employees could elect coverage under either the noncontributory Basic Plan or the contributory Member Investment Plan (MIP). Effective January 1, 1990, all new employees are automatically enrolled in MIP. Participants in MIP, who receive benefits in addition to those available under the Basic Plan, contribute a percentage of salary. The graduated contribution rate is based on total wages and is calculated at 3% of the first \$5,000; 3.6% of the next \$10,000; and 4.3% of all wages over \$15,000. MIP members may retire at any age with 30 years of service, or at age 60 with 5 years of service, with benefits based on a final average compensation period of 3 years.

**NEW BRANCHES SCHOOL**  
**Notes to Basic Financial Statements**  
**June 30, 2007**

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Post-employment benefits for health, dental, and vision insurance are available at retirement through the MPSERS. Retirees contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental and vision coverage. Required contributions for post-employment health care benefits are included as part of the School's total contribution to the MPSERS as discussed above.

**Note H – Stewardship, Compliance and Accountability**

The following School fund had actual expenditures exceed final budgeted expenditures for the year ended June 30, 2007, as follows:

	<b>Budget</b>	<b>Actual</b>	<b>Negative Variance</b>
Food Service Special Revenue Fund	\$ 44,997	\$ 49,188	\$ 4,191

## **SUPPLEMENTAL INFORMATION**

## **GENERAL FUND**

To account for resources which are traditionally associated with the general operation of the School and not required to be accounted for in another fund.



**NEW BRANCHES SCHOOL**  
**General Fund**  
**Comparative Balance Sheet**  
**June 30, 2007 and 2006**

	<u>2007</u>	<u>2006</u>
<b>Assets</b>		
Cash equivalents	\$ 143,107	\$ 70,321
Accounts receivable	3,443	6,834
Due from other governmental units	200,164	163,479
Prepaid expenditures	<u>7,286</u>	<u>-</u>
<b>Total Assets</b>	<u><u>\$ 354,000</u></u>	<u><u>\$ 240,634</u></u>
<b>Liabilities and Fund Balances</b>		
<b>Liabilities</b>		
Accounts payable	\$ 16,021	\$ 11,910
Due to other governmental units	24,583	20,938
Salaries payable	<u>42,575</u>	<u>41,366</u>
<b>Total Liabilities</b>	<u>83,179</u>	<u>74,214</u>
<b>Fund Balances</b>		
Unreserved:		
Undesignated	<u>270,821</u>	<u>166,420</u>
<b>Total Liabilities and Fund Balances</b>	<u><u>\$ 354,000</u></u>	<u><u>\$ 240,634</u></u>

**NEW BRANCHES SCHOOL**  
**General Fund**  
**Comparative Schedule of Revenues**  
**For the years ended June 30, 2007 and 2006**

	<u>2007</u>	<u>2006</u>
Local sources:		
Interest earnings:		
Interest on cash equivalents	\$ 1,778	\$ 2,144
Other local revenue:		
Child care fees	18,985	17,256
Donations	57,513	39,770
Miscellaneous	1,699	3,606
	<u>78,197</u>	<u>60,632</u>
Total local sources	79,975	62,776
State sources:		
State aid	1,172,597	926,897
Federal sources:		
Title I	21,811	25,434
Title IIA	5,285	5,277
Title V	177	422
I.D.E.A. program	19,544	16,883
Drug free schools	433	464
Total federal sources	<u>47,250</u>	<u>48,480</u>
Interdistrict sources:		
Special education - county	<u>95,709</u>	<u>2,574</u>
<b>Total Revenues</b>	<u><u>\$ 1,395,531</u></u>	<u><u>\$ 1,040,727</u></u>

**NEW BRANCHES SCHOOL**  
**General Fund**  
**Comparative Schedule of Expenditures**  
**For the years ended June 30, 2007 and 2006**

	<u>2007</u>	<u>2006</u>
Current:		
Instruction:		
Basic programs:		
Elementary:		
Salaries	\$ 385,968	\$ 335,757
Employee benefits	164,679	140,393
Purchased services	1,028	848
Supplies	31,657	23,646
Capital outlay	-	1,498
Total basic programs	<u>583,332</u>	<u>502,142</u>
Added needs:		
Special education:		
Salaries	35,757	25,621
Employee benefits	14,744	7,558
Supplies	143	360
	<u>50,644</u>	<u>33,539</u>
Compensatory education:		
Salaries	66,647	58,368
Employee benefits	27,838	19,267
Purchased services	9,278	9,278
Supplies	1,203	1,528
	<u>104,966</u>	<u>88,441</u>
Total added needs	<u>155,610</u>	<u>121,980</u>
Supporting services:		
Pupil services:		
Physical therapist services:		
Purchased services	7,819	4,439
Psychological services:		
Purchased services	2,604	3,442
Speech pathology services:		
Purchased services	13,884	12,016
Social worker services:		
Purchased services	11,330	5,696
Teacher consultant services:		
Purchased services	2,653	7,116
Total pupil services	<u>38,290</u>	<u>32,709</u>
Instructional staff services:		
Improvement of instruction:		
Purchased services	10,400	7,349

(Continued)

**NEW BRANCHES SCHOOL**  
**General Fund**  
**Comparative Schedule of Expenditures**  
**For the years ended June 30, 2007 and 2006**

	2007	2006
Other instructional staff services:		
Salaries	\$ 2,485	\$ 2,645
Employee benefits	630	634
	<u>3,115</u>	<u>3,279</u>
Total instructional staff services	<u>13,515</u>	<u>10,628</u>
General administrative services:		
Board of education:		
Purchased services	10,385	10,568
Supplies	197	85
Miscellaneous	-	10
	<u>10,582</u>	<u>10,663</u>
Executive administration:		
Salaries	88,293	73,558
Employee benefits	32,003	22,265
Purchased services	36,648	27,211
Miscellaneous	-	277
	<u>156,944</u>	<u>123,311</u>
Total general administrative services	<u>167,526</u>	<u>133,974</u>
School administrative services:		
Office of the principal:		
Salaries	57,028	49,097
Employee benefits	18,258	16,878
Purchased services	14,629	17,787
Supplies	5,411	7,607
Capital outlay	-	4,848
Miscellaneous	4,661	6,160
	<u>99,987</u>	<u>102,377</u>
Total school administrative services		
Business services:		
Salaries	819	16,877
Employee benefits	197	4,975
Purchased services	-	8
	<u>1,016</u>	<u>21,860</u>
Total business services		
Operation and maintenance services:		
Operation and maintenance:		
Salaries	4,034	3,336
Employee benefits	6,828	764
Purchased services	160,533	163,478
Supplies	22,438	19,528
Capital outlay	-	1,852
	<u>193,833</u>	<u>188,958</u>
Total operation and maintenance services		
Pupil transportation services:		
Pupil transportation:		
Purchased services	303	303

(Continued)

**NEW BRANCHES SCHOOL**  
**General Fund**  
**Comparative Schedule of Expenditures**  
**For the years ended June 30, 2007 and 2006**

	<u>2007</u>	<u>2006</u>
Central services:		
Planning and evaluation:		
Purchased services	\$ -	\$ 500
Staff/personnel services:		
Purchased services	468	728
Technology services:		
Salaries	2,747	1,219
Employee benefits	591	318
Purchased services	3,399	3,490
	<u>6,737</u>	<u>5,027</u>
Total central services	<u>7,205</u>	<u>6,255</u>
Community services:		
Community activities:		
Miscellaneous supplies	12	758
Child care:		
Salaries	16,336	14,906
Employee benefits	3,556	3,598
Supplies	1,212	1,277
Miscellaneous	0	150
	<u>21,104</u>	<u>19,931</u>
Total community services	<u>21,116</u>	<u>20,689</u>
Facilities acquisition:		
Purchased services	160	-
Total Expenditures	<u><u>\$ 1,281,893</u></u>	<u><u>\$ 1,141,875</u></u>

## **NONMAJOR GOVERNMENTAL FUND**

**NEW BRANCHES SCHOOL**  
**Food Service Special Revenue Fund**  
**Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual**  
**For the year ended June 30, 2007**

	Budget	Actual	Variance - Positive (Negative)
<b>Revenues</b>			
Local sources	\$ 10,300	\$ 11,176	\$ 876
State sources	500	664	164
Federal sources	28,000	28,111	111
<b>Total Revenues</b>	<u>38,800</u>	<u>39,951</u>	<u>1,151</u>
<b>Expenditures</b>			
Current:			
Food service	44,997	49,188	(4,191)
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<u>(6,197)</u>	<u>(9,237)</u>	<u>(3,040)</u>
<b>Other Financing Sources</b>			
Transfers in	6,197	9,237	3,040
<b>Net Change in Fund Balances</b>	-	-	-
<b>Fund Balances, July 1</b>	<u>1,591</u>	<u>1,591</u>	<u>-</u>
<b>Fund Balances, June 30</b>	<u><u>\$ 1,591</u></u>	<u><u>\$ 1,591</u></u>	<u><u>\$ -</u></u>

## **SPECIAL REVENUE FUND**

*Food Service*—to account for monies received from food service activities and federal subsidies for use in administering the hot lunch program of the School.



**NEW BRANCHES SCHOOL**  
**Food Service Special Revenue Fund**  
**Comparative Balance Sheet**  
**June 30, 2007 and 2006**

	<u>2007</u>	<u>2006</u>
<b>Assets</b>		
Cash equivalents	\$ 1,905	\$ 328
Accounts receivable	626	1,262
Inventory	<u>251</u>	<u>251</u>
<b>Total Assets</b>	<u><u>\$ 2,782</u></u>	<u><u>\$ 1,841</u></u>
 <b>Liabilities and Fund Balances</b>		
<b>Liabilities</b>		
Due to other governmental units	\$ -	\$ 250
Deferred revenue	<u>1,191</u>	<u>-</u>
<b>Total Liabilities</b>	<u>1,191</u>	<u>250</u>
<b>Fund Balances</b>		
Unreserved:		
Undesignated	<u>1,591</u>	<u>1,591</u>
<b>Total Liabilities and Fund Balances</b>	<u><u>\$ 2,782</u></u>	<u><u>\$ 1,841</u></u>

**NEW BRANCHES SCHOOL**  
**Food Service Special Revenue Fund**  
**Comparative Schedule of Revenues, Expenditures and Changes in Fund Balances**  
**For the years ended June 30, 2007 and 2006**

	<u>2007</u>	<u>2006</u>
<b>Revenues</b>		
Local sources:		
Sales and admissions:		
Children's lunches	\$ 11,119	\$ 8,564
Adult lunches	57	318
	<u>11,176</u>	<u>8,882</u>
State sources	664	656
Federal sources	<u>28,111</u>	<u>19,626</u>
<b>Total Revenues</b>	<u>39,951</u>	<u>29,164</u>
<b>Expenditures</b>		
Current:		
Food service:		
Director's salary	18,357	16,853
Employee benefits:		
Employee insurance	5,052	3,981
Retirement	3,241	2,739
Social Security	1,393	1,289
Workers' compensation insurance	93	37
Food	15,804	6,727
Delivery	1,009	686
Nonedible supplies	4,239	1,457
Commodity usage	-	215
New equipment	-	2,099
	<u>49,188</u>	<u>36,083</u>
<b>Total Expenditures</b>	<u>49,188</u>	<u>36,083</u>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<u>(9,237)</u>	<u>(6,919)</u>
<b>Other Financing Sources</b>		
Transfers in	<u>9,237</u>	<u>6,920</u>
<b>Net Change in Fund Balances</b>	-	1
<b>Fund Balances, July 1</b>	<u>1,591</u>	<u>1,590</u>
<b>Fund Balances, June 30</b>	<u><u>\$ 1,591</u></u>	<u><u>\$ 1,591</u></u>

**REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

September 10, 2007

The Board of Directors  
New Branches School  
Kent County, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of New Branches School as of and for the year ended June 30, 2007, which collectively comprise New Branches School's basic financial statements and have issued our report thereon dated September 10, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered New Branches School's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of New Branches School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of New Branches School's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects New Branches School's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of New Branches School's financial statements that is more than inconsequential will not be prevented or detected by New Branches School's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by New Branches School's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as described above.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether New Branches School's are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of New Branches School in a separate letter dated September 10, 2007.

This report is intended solely for the information and use of management, the Board of Directors, the Michigan Department of Education, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Certified Public Accountants

*Hungerford, Aldain, Nichols & Carter, P.C.*

Certified Public Accountants

Hungerford, Aldrin,  
Nichols & Carter, P.C.  

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C P A S AND CONSULTANTS

September 10, 2007

The Board of Directors  
New Branches School

The following comments pertain to our audit of the financial records of New Branches School as of and for the year ended June 30, 2007. The comments are made in accordance with Statement on Auditing Standards No. 61 "Communication With Audit Committees" which requires that in certain audits, certain matters are to be communicated to those who have responsibility for oversight of the financial reporting process. The communications required by this statement, if pertinent to the examination, are as follows:

1. Auditor's Responsibility Under Generally Accepted Auditing Standards.
2. Significant Accounting Policies.
3. Management Judgments and Accounting Estimates.
4. Significant Audit Adjustments.
5. Other Information in Documents Containing Audited Financial Statements.
6. Disagreements With Management.
7. Consultation With Other Accountants.
8. Major Issues Discussed With Management Prior to Retention.
9. Difficulties Encountered in Performing the Audit.
10. Uncorrected Misstatements (Passed Audit Adjustments).

The communications specified by this Statement are incidental to the audit and are not required to occur before, nor do they affect, our auditor's report on the District's financial statements.

The following are the matters to be communicated by SAS No. 61 based on our observations during the course of our audit of the financial statements and our review and evaluation of the internal control system of New Branches School:

### **Auditors Responsibility Under U.S. Generally Accepted Auditing Standards**

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered New Branches School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

### **Significant Accounting Policies**

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by New Branches School are described in Note A in the Notes to Basic Financial Statements.

### **Significant Audit Adjustments**

During the course of our audit no adjustments of a significant nature were made to the accounting records of the District.

### **Proposed Audit Adjustments**

There were no material proposed audit adjustments not recorded by New Branches School.

### **Suggestions And Recommendations**

We offered suggestions and recommendations regarding the day-to-day operations of the accounting system of New Branches School to the Business Director as the topics arose during the course of our audit fieldwork. Hopefully, these suggestions will ease the day-to-day operations of the business office and assist in more efficient monthly and year-end financial record keeping and reporting.

## Other Comments

The General Fund Balance of the District increased by \$104,401 to \$270,821 at June 30, 2007. This balance represents approximately 21 percent of the District's 2007-08 expenditure budget, up from 13 percent at June 30, 2006. Maintaining a fund balance of at least 25 to 30 percent of the ensuing year's expenditure budget is advisable for New Branches School. This level of fund balance alleviates the School from having to borrow for short term operating purposes, gives the School more stable operating funds during the year and acts as a buffer against the uncertainty of state aid revenues accruing to the District. In addition, employee benefit costs are expected to increase significantly in the next few years, which will require the use of fund balance reserves considering the expectation of small (or no) growth in state aid revenues.

Our audit this year was again completed under the requirements of Statement on Auditing Standards No. 99 "Consideration of Fraud in a Financial Statement Audit" (SAS No. 99), issued by the American Institute of Certified Public Accountants (AICPA) which requires both auditors and their clients to more directly and openly assess those areas within a school that might be susceptible to fraudulent activity, which would normally include those areas outside the central office that handle cash, inventory, supplies, etc. This is an important audit standard that requires increased face-to-face discussions/interviews with client personnel and extensive documentation of our findings for future reference. We found that New Branches School has an adequate system of internal controls within its accounting and record keeping system, and found those tested this year to be operating in the manner intended. Working with New Branches School's Business Director, we will be testing other control areas each year as a part of our audit, with suggestions and recommendations to follow the testing each year, to assist the School in maintaining and improving its systems.

In the fall of 2006, the AICPA issued Statement on Auditing Standards No. 112 "Communicating Internal Control Related Matters Identified in an Audit", which requires a written communication from an auditor to an organization's governing board if any weaknesses in internal controls rise to the level of "significant deficiencies" or "material weaknesses" that might effect the integrity of the financial statements. The AICPA significantly broadened the standards as to what might be a significant deficiency and/or material weakness and raised the expectations of auditors to report these control deficiencies if found. While we did find certain control deficiencies during our audit of New Branches School for the year ended June 30, 2007, none of these control deficiencies, in our opinion, rose to the level of significant deficiencies or material weaknesses, as they were compensated for by the interaction between the business office, School employees and the Board of Directors, and the knowledge and experience of the Business Director.

\* \* \* \* \*

This communication is intended solely for the information and use of the New Branches School Board of Directors, administration and others within the organization. We have furnished a copy of this letter to the Michigan Department of Education as an enclosure with the audit report as required by the State of Michigan.

New Branches School  
September 10, 2007  
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We appreciate the opportunity to provide financial auditing and advisory services to New Branches School and hope to continue to do so in the future. We also appreciate the dedication and cooperation of the District's administration and accounting personnel in performing their functions and in assisting us in completing ours. If there are any questions regarding the audit report, or the attached communications, we will be happy to address them

*Hungerford, Aldrin, Nichols & Austin, P.C.*

Certified Public Accountants

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